APRIL 8, 1985 THREE DOLLARS

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Forbes

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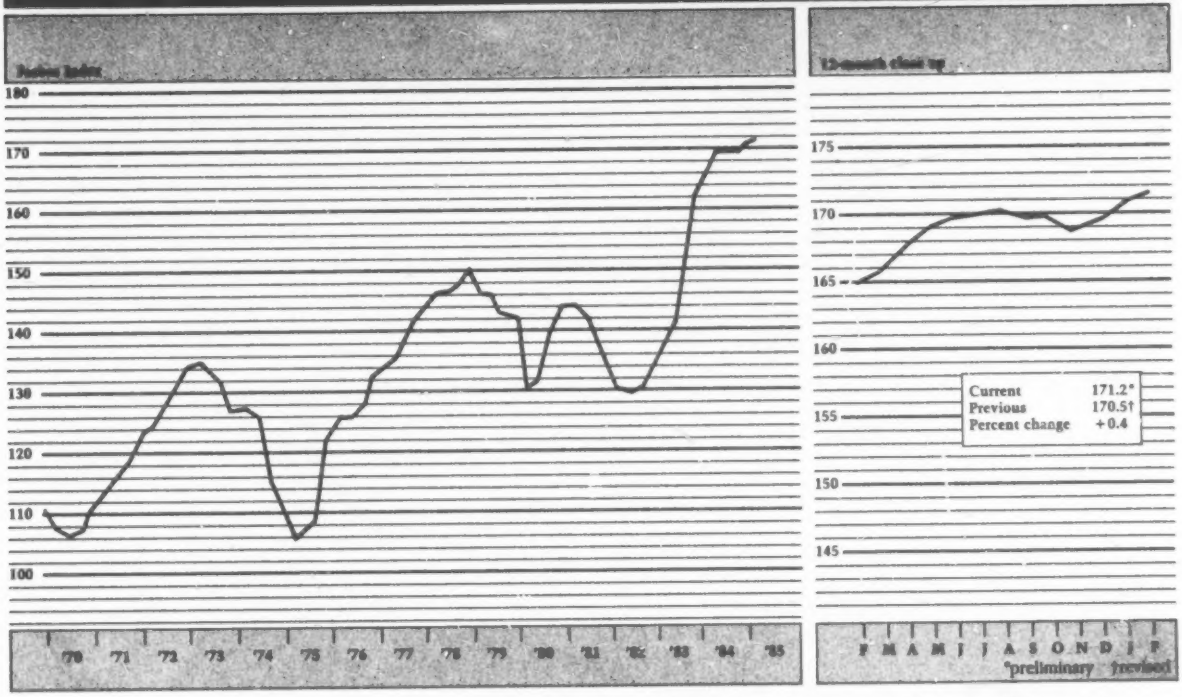
Cover photo by UPI/Bettmann Newsphotos

The Forbes Index



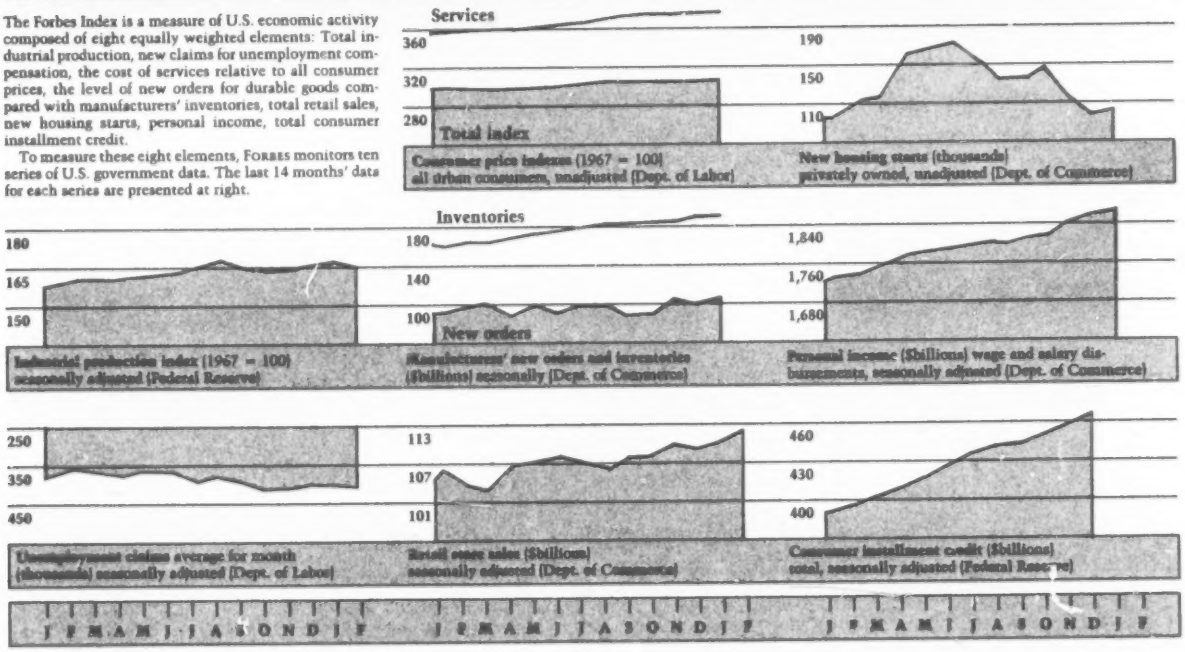
Fighting off some chills. Despite some setbacks, the Forbes Index advanced 0.4% over the previous revised figure. Manufacturers' inventories rose only 0.2% from month-earlier figures, but are 11.5% higher than they were a year ago. Over the same one-year period, however, manufacturers' new orders registered only a 4.4% gain. The relationship of orders to inventories bears further watching. Meanwhile, retail sales posted a 1.4% rise over month-earlier results.

Industrial production shows a 0.5% decline from the previous month. New unemployment claims stand 3.1% higher than they were one month ago and 16.5% higher than they were one year ago. That puts them at the highest level since August of 3.

The Forbes Index Components

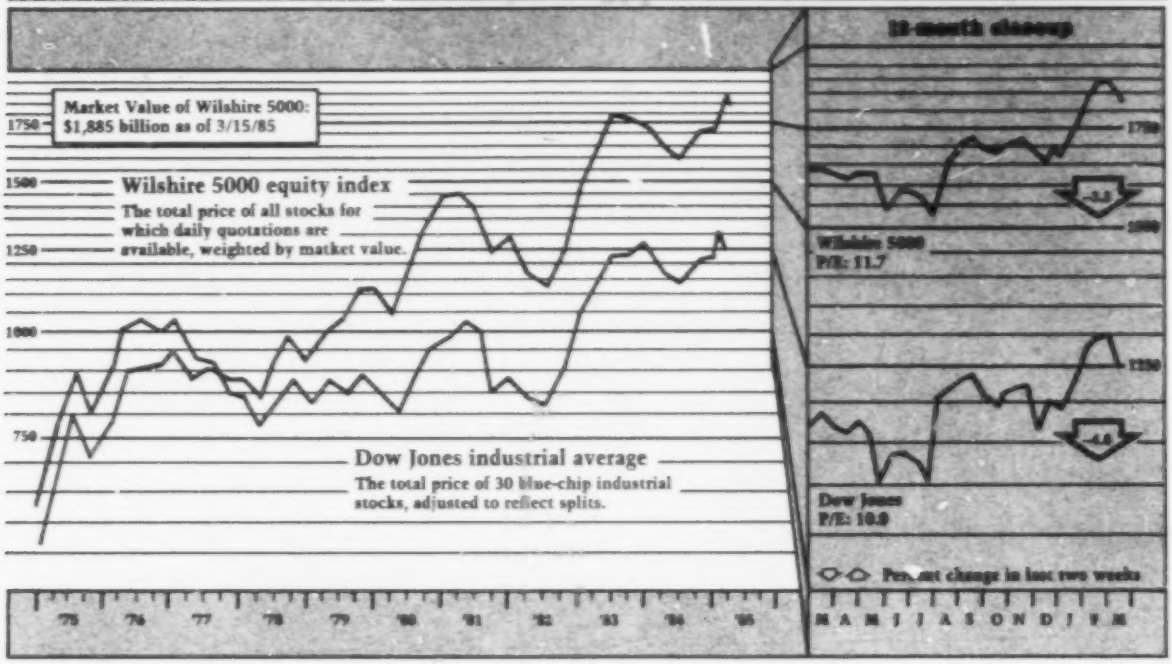
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.


Services
360
320
280
Total index
Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)
190
150
110
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
Inventories
180
165
150
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)
180
140
100
New orders
Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)
1,840
1,760
1,680
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
250
350
450
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
113
107
101
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
460
430
400
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
J F M A M J J A S O N D J F
J F M A M J J A S O N D J F
J F M A M J J A S O N D J F

Edited by Steve Kichen

The Forbes/Wilshire 5000 Review


Market Value of Wilshire 5000: $1,885 billion as of 3/15/85
1750
1500
1250
1000
750
Wilshire 5000 equity index
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
'75 '76 '77 '78 '79 '80 '81 '82 '83 '84 '85
12-month closings
Wilshire 5000 P/E: 11.7
Dow Jones P/E: 10.0
Percent change in last two weeks
M A M J J A S O N D J F M

Is this any way to treat a rally? The market had been on a roll since the start of the new year, but during the last two weeks investors' confidence was put to the test. The optimists point out that averages never go straight upward without some correcting along the way, and the recent damage may not be as bad as it appears upon first glance. The Dow industrials, showing a 4% loss for the last ten trading days, closed the period holding on to less than a 3% gain since the beginning of January. But the Wilshire index, despite its two-week decline of 3.3%, is 7% higher than it was at the beginning of the year. This translates into a gain of some $129 billion in market capitalization. In addition, the Wilshire stands 11.4% higher than it was 52 weeks ago.

The recent weakness in share prices has, of course, brought down P/E multiples. Two weeks ago the Wilshire index of more than 5,600 issues was selling at 12.1 times latest 12-month earnings. The Wilshire multiple is now down to 11.7, which is a bit lower than it was a year ago. During the last two weeks the P/E on the Dow declined from 10.5 to 10. Analysts are forecasting 18.8% earnings growth in 1985 *(see p. 172)*, which is about the same as 1984's improvement over 1983. If the analysts are close to the mark, many issues are still cheap.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones Industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	–2.8	–2.1	–2.7	–2.7	–3.3	–3.4
in last 52 weeks	11.4	12.9	5.3	11.7	5.2	9.7

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	–3.4	–1.1	–4.6	0.5	–2.6	–2.0	–0.9	–2.2	–1.8	–0.5	–1.3	–2.0
in last 52 weeks	12.8	8.0	7.4	22.6	–0.4	22.3	19.5	11.8	6.[illegible]	21.7	29.3	–2.3

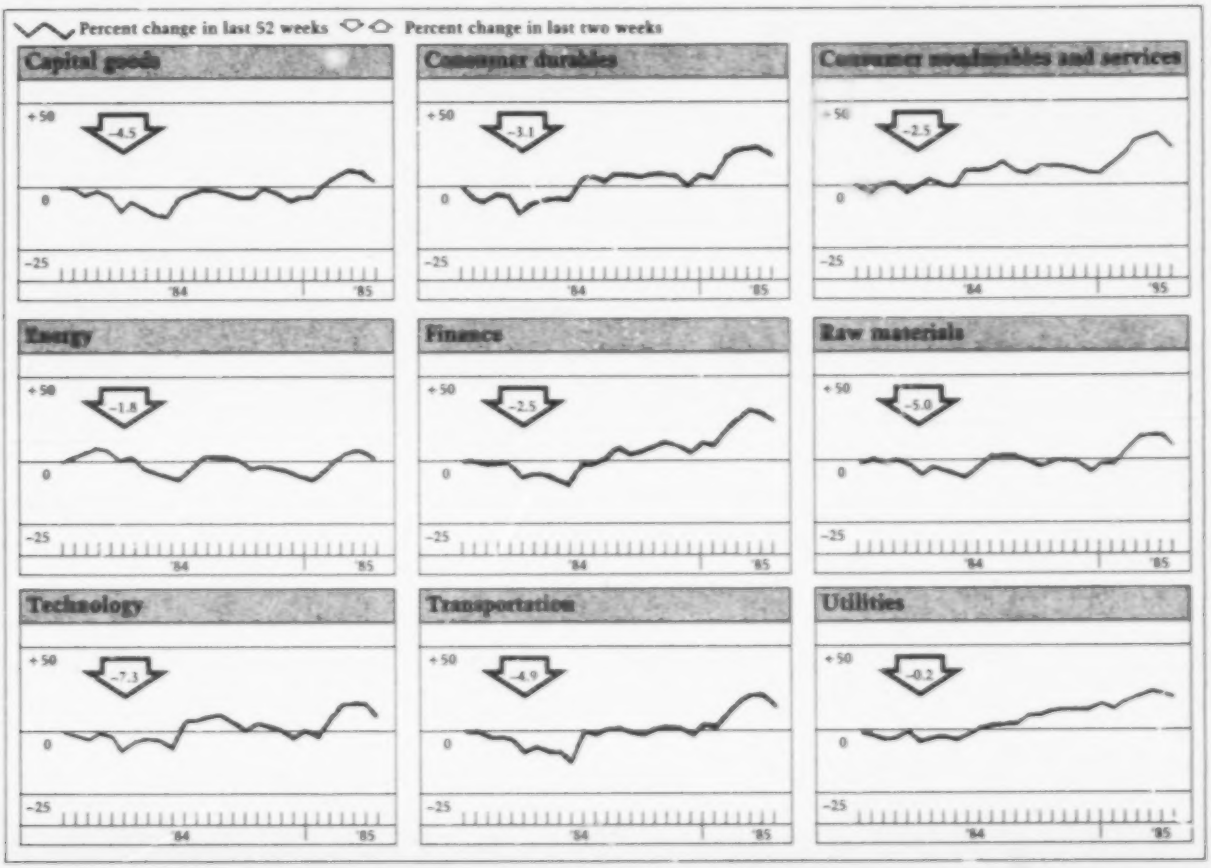
[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 3/15/85. Prepared by Wilshire Associates, Santa Monica, Calif. Kenneth Alcorn

Where The Action Is

The rough road for technology shares. With the Wilshire index slipping more than 3% during the last two weeks, all sectors lost ground. But as has all too often been the case over the last year and a half, technology issues suffered the sharpest setback, a 7.3% decline. With the technology group selling at the highest multiple to estimated 1985 earnings (see below), it is especially vulnerable when well-known firms such as Wang Labs, Data General or Apple Computer report disappointing results.

Losses of between 4.5% and 5% were registered by raw materials, capital goods and transportation shares. Predictably, given their low-volatility profile, utility shares performed best over the recent two-week stretch. But rising interest rates would hurt them.



What The Analysts Think

Less optimism, but still plenty of hope. Except for the finance and utility sectors, security analysts continue to cut their 1985 earnings projections. The good news: The Forbes 500 group is priced at an aggregate 10.5 times latest 12-month earnings but only 8.9 times 1985 estimates and 8.1 times 1986 estimates.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.75	10.5
1985 estimates	4.42	8.9
1986 estimates	4.98	8.1

Rank based on change in estimate	Sector	Estimated 1985 EPS	Estimated 1985 P/E	% change in 1985 estimate in 2 weeks	% change in 1985 estimate in 4 weeks
1	Finance	$3.51	9.5	0.57%	0.28%
2	Utilities	3.61	7.2	0.07	-0.12
3	Consumer nondurables	2.72	10.9	-0.28	-0.67
4	Transportation	3.30	8.7	-0.31	-0.38
5	Energy	3.76	7.8	-0.95	-2.28
6	Technology	3.08	11.8	-1.28	-3.13
7	Capital goods	3.00	11.2	-1.40	-2.16
8	Consumer durables	4.85	8.0	-2.11	-5.10
9	Raw materials	2.55	9.8	-3.69	-5.17

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 3/15/85. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.

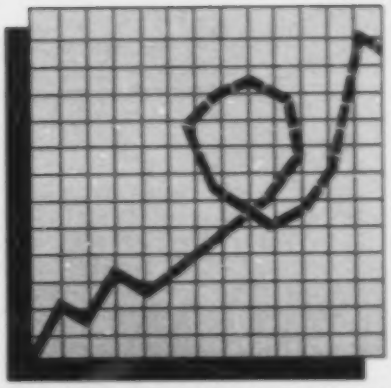
Analysts' earnings predictions are wrong more than they are right. But a wise investor still keeps an eye on those estimates.

Outguessing the guessers

By Steve Kichen and Michael Ozanian

EARNINGS PREDICTIONS are notoriously unreliable. As late as December, the experts were, on average, overshooting actual 1984 earnings results by close to 10%. But the estimates have a big impact. Look at what happens to a stock price when an analyst at a big brokerage firm raises or lowers his forecast. Even if you are skeptical about the analysts, you have to take them seriously.

The scorekeeper in this game is Lynch, Jones & Ryan. This New York City brokerage firm produces the esteemed Institutional Brokers Estimate System (IBES), a service that tracks more than 2,000 analysts submitting earnings projections on more than 3,000 firms.



And what is the score? In keeping with the flagging euphoria about the economy, the analysts are cutting forecasts of earnings. For every company with an upward revision in estimated 1985 earnings, there are two with a downward revision. Against this backdrop, though, there is some good news. The frequency of cuts in estimates is decreasing; not long ago the down-to-up ratio was 3-to-1. And the analysts are now saying that 1985 earnings will be up 19% on average.

The following tables identify companies with the greatest predicted jumps in earnings for fiscal 1985 and companies about which analysts are having serious second thoughts. We included only firms for which estimates and reported earnings were at least 50 cents per share and which had 1985 earnings estimates from at least three analysts.

The first table, starting below, shows the turnarounds. These are firms whose 1985 earnings, analysts expect, will be at least twice those in 1984. McGraw-Edison shows a projected rise of more than 600%. Last year this manufacturer of electrical energy equipment earned only 65 cents a share, but that was after writing off $57.5 million, or $3.47 a share, in discontinued operations.

Second-ranked Walt Disney should recover nearly as sharply. Will Disney earn the predicted $4.23 in 1985? Don't expect to-the-penny accuracy. Predictions of the 21 security analysts who submitted estimates range from a low of $3.75 to a high of $5. The last column in the tables, "confidence factor," describes the level of agreement

Calling the turnarounds

Security analysts think that 1985 earnings will increase by 100% or more for the 40 firms listed in this table. Nine issues sell at less than 8 times 1985 estimates, while seven show estimated P/Es of 14 or higher. But those estimates with low or very low confidence factors must be treated with caution.

Company/business	Recent price	Earnings per share 1984	Earnings per share 1985 est	Earnings per share % change	Estimated 1985 P/E	Estimates number	Estimates confidence factor
McGraw-Edison/electrical equipment	41¼	$0.65	$4.59	606%	9.0	12	average
Walt Disney/entertainment	74⅞	0.61	4.23	593	17.7	21	low
Pasini Corp/building	27½	0.60	2.43	305	11.3	3	low
Control Data/computer equipment	35¼	0.81	3.24	300	10.8	15	average
Paine Webber Group/securities brokerage	37⅝	0.77	2.83	268	13.3	5	low
SRI/insurance	16¾	0.59	2.14	263	7.8	7	low
First Chicago/bank holding	23⅜	1.19	4.10	245	5.8	24	average
Pioneer Corp/natural gas	30	0.64	2.05	220	14.6	14	low
AO Smith/auto parts	16¼	1.10	3.30	200	5.0	3	low

Source: Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan.

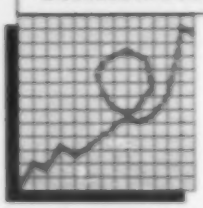
Calling the turnarounds

Company/business	Recent price	Earnings per share 1984	Earnings per share 1985 est	Earnings per share % change	Estimated 1985 P/E	Estimates number	Estimates confidence factor
United Energy Res/natural gas	30⅜	$1.28	$3.64	184%	8.3	18	average
ACuanic Richfield/integrated oil	48⅛	2.21	6.23	182	7.7	34	average
Quaker State Oil Ref/integrated oil	19⅞	0.82	2.18	166	9.1	5	low
Fieldcrest Mills/textiles	34⅛	1.07	2.80	162	12.2	4	very low
Inside Rite/shoes	17⅛	0.72	1.85	157	9.3	5	very low
Marsh & McLennan/insurance	63⅛	1.62	4.16	157	15.2	15	high
Kerr-McGee/integrated petroleum	31½	1.22	3.13	157	10.1	21	low
Colgate-Palmolive/household products	23¼	0.86	2.20	156	10.6	15	average
Kemper/insurance	50¼	1.72	4.35	153	11.6	11	low
Zenith Natl Ins/insurance	13	0.55	1.37	149	9.5	4	low
Levi Strauss/apparel	32⅞	1.07	2.66	149	12.4	15	low
General Re/insurance	71⅜	1.60	3.92	145	18.3	21	low
Florida Steel/steel	17⅛	0.85	2.07	144	8.3	6	very low
Apple Computer/computer equipment	21½	1.05	2.38	127	9.0	24	average
Pulte Homes/home building	16½	0.65	1.47	126	11.2	7	low
Clark Equip/construction machinery	29½	1.28	2.88	125	10.2	11	very low
Seagull Energy/natural gas	18⅜	1.15	2.58	124	7.1	5	very low
HF Ahmanson/savings and loans	29⅝	1.73	3.86	123	7.7	15	very low
CalMat/cement	22⅝	0.90	2.00	122	11.3	3	very low
Pogo Producing/petroleum production	17¼	0.50	1.11	122	15.5	8	low
Continental Airlines/airline	9⅛	1.04	2.28	119	4.0	6	very low
Micron Technology/computer equipment	11⅜	0.76	1.66	118	6.9	4	low
Hartford Steam Boiler Ins/insurance	70	2.24	4.88	118	14.3	4	very low
First Fid Group/bank holding	32⅛	1.95	4.20	115	7.7	13	high
Polaroid/precision instruments	25	0.83	1.78	114	14.0	19	very low
Tonka/toys	57¾	2.34	4.95	112	11.7	3	low
Hanover Insurance/insurance	36½	1.64E	3.38	106	10.8	6	low
Parker Pen/pens, temporary help	16½	0.61E	1.25	105	13.2	6	low
Boise Cascade/paper and forest prods	41¼	2.23	4.52	103	9.1	13	low
Federal Express/freight forwarding	33⅞	1.65E	3.31	101	10.2	11	average
Kaufer/construction	13¾	0.56	1.12	100	12.3	3	low

E: Estimate.

Source: Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan.

Statistical Spotlight



among the analysts tracking each company. The low confidence factor for Disney estimates reflects the wide range in the figures.

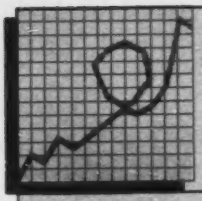
A low confidence factor implies not only uncertainty on Wall Street but also a high degree of underlying business uncertainty. Last year, for example, Crown Central Petroleum was top ranked in this table. The average 1984 estimate was $4.42, but Crown's confidence factor was very low. Crown is now is expected to lose around $2.37 in 1984.

The next table, beginning on page 176, lists companies out of phase with the strengthening economy. These are firms for which analysts expect drops of 33% or more from 1984 earnings. One-quarter of this list consists of insurance firms. Caterpillar Tractor, however, is expected to show the sharpest earnings drop.

The final two tables present companies that have had a change in fortune in recent months, reflected in big changes in how analysts rate them. On the bottom of page 176 are companies whose 1985 estimates have jumped by 20% or more since last August. Continental Airlines, recovering while in bankruptcy court, has the sharpest upward revision—from 70 cents a share to $2.28. About a third of the remaining companies are in finance-related lines of business. Credit that to expectations of declining interest rates.

The last table, on page 178, lists firms where the change in fortunes has been for the worse. For these companies, analysts have scaled back 1985 estimates 40% or more over the past six months.

Revisions don't necessarily make the forecasts accurate. Last year we cited three computer companies—Apple, Digital Equipment and Coleco—that showed sizable downward revisions in estimates over a six-month period. How close to the mark were the new figures? The revised forecast for Apple was 78 cents in 1984, but Apple earned $1.05. Digital Equipment earned $5.73 and beat its $5.16 estimate. Coleco, which was sup-



Trouble ahead

Of the more than 3,000 issues in the IBES universe, about 8% are expected by security analysts to report lower earnings in 1985. Profits for the following firms—all with three or more estimates and with both actual and predicted earnings of at least 50 cents a share—are expected to be off by 33% or more.

Company/business	Recent price	Earnings per share 1984	Earnings per share 1985 est	Earnings per share % change	Estimated 1985 P/E	Estimates number	Estimates confidence factor
Caterpillar Tractor/construction machinery	31½	$4.47	$1.13	–75%	27.9	20	very low
Sea Galley Stores/restaurants	8¼	2.05	0.59	–71	14.0	5	very low
Rouse/real estate development	41	2.54	0.92	–64	44.6	3	low
Am Natl Ins/insurance	34⅛	8.42	3.63	–57	9.5	3	very high
Datapoint/computer equipment	20¼	1.29	0.56	–57	36.2	11	very low
CPT/office equipment	7⅛	1.05	0.52	–50	13.7	12	very low
Commodore Intl/computer equipment	12¾	4.66	2.64	–43	4.8	11	very low
Phila Svg Fund Soc/savings and loans	8½	2.05	1.17	–43	7.3	5	very low
Amer Income Life/insurance	13¼	2.48	1.48	–40	9.0	5	average
Unifi/textiles	9⅞	1.05	0.64	–39	15.4	4	very low
Lone Star Inds/cement	23⅝	2.55	1.60	–37	14.8	7	very low
Whittaker/health care prods	24⅞	3.01	1.90	–37	13.1	9	very low
Cordis/health care equipment	8	1.44	0.91	–37	8.8	7	low
Independent Ins Group/insurance	34½	7.03	4.56	–35	7.6	3	very high
Colonial Life/insurance	32	5.20	3.39	–35	9.4	3	high
Robinson Nugent/precision instruments	13½	0.90	0.60	–33	22.5	6	very low

Source: Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan.

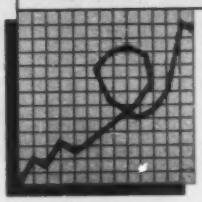
On the mend

The 17 companies below show profit forecasts up 20% or more from projections made six months ago. But the encouraging numbers do not guarantee that share prices will follow. And be warned that some of these shares probably have already risen to reflect the higher estimates.

Company/business	Recent price	1984 EPS	1985 estimates recent estimate	1985 estimates 6 mos ago	1985 estimates % change	number	confidence factor
Continental Airlines/airline	9⅛	$1.04	$2.28	$0.70	226%	6	very low
Tonka/toys	57¼	2.34	4.95	2.55	94	3	low
Hasbro Bradley/toys	30	2.58	2.72	1.80	51	6	low
Par Pharmaceutical/ethical drugs	19¾	0.70	0.92	0.62	48	3	average
Multibank Financial/bank holding	22½	2.82	3.06	2.11	45	4	average
Claires Stores/specialty retail	19	0.61	0.93	0.65	43	4	low
Texas Air/airline	11⅛	1.24	2.34	1.66	41	8	low
Crump Cos/insurance	26⅝	1.19	1.47	1.05	40	5	low
Centran/bank holding	35	6.03	4.98	3.92	27	6	low
First Boston/securities brokerage	65¼	6.22	7.71	6.10	26	3	average
Peoples Energy/gas utility	17¼	2.07	2.26	1.81	25	7	average
Gibraltar Financial/savings and loans	9⅞	2.05	2.23	1.80	24	12	low
CB&T Bancshares/bank holding	31	1.65	1.92	1.55	24	3	high
Amsted Inds/railroad equip	38⅜	2.23	3.71	3.05	22	6	low
Rollins Environmental Svcs/ind waste disposal	20⅜	0.64	0.91	0.75	21	7	low
Rohr Inds/aerospace	52	4.92	6.29	5.21	21	8	average
Flexi-Van/container leasing	30⅞	2.20	2.77	2.31	20	4	low

Source: Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan.

Statistical Spotlight



posed to earn $2.96 a share, lost nearly $5. We're telling you all this so you will not take estimates too literally.

And a schedule of companies with projected earnings gains cannot be taken as a buy list. Consider what happened to stocks on last year's survey. Companies whose 1984 earnings were supposed to show the sharpest rise over 1983 were up 8% on average. But the companies whose 1984 earnings were supposed to show the sharpest decline from 1983 gained an average of 14%.

The moral is clear: You can't make money buying or selling stocks on the basis of predicted changes in earnings; those changes are already discounted in the stock price. So how can you come out ahead? By betting against the consensus and being right. The analysts predict $5 a share for the company, but you think the new product line will be a bomb. If earnings come in at $2.50, chances are the stock will drop on the news. ■

On the decline

Six months ago Wall Street analysts had higher earnings forecasts for these 32 firms. Since then they have cut their estimates by 40% or more. Note the low confidence factors for many of these issues. But investors willing to place their bets behind the more optimistic analysts could be rewarded.

Company/business	Recent price	1984 EPS	1985 estimates: recent estimate	6 mos ago	% change	number	confidence factor
Datapoint/computer equipment	20¼	$1.29	$0.56	$1.93	–71%	11	very low
Transco Exploration Partners/oil & gas explor	23⅜	0.86	1.13	3.12	–64	6	very low
SW Forest Inds/paper and forest prods	15½	0.83	1.03	2.73	–62	3	very low
CPT/office equipment	7⅛	1.05	0.52	1.33	–61	12	very low
Sage Energy/oil and gas explor, dev and drilling	8⅝	1.00	0.87	2.02	–57	4	very low
Lukens/steel	14½	0.91	1.28	2.97	–57	3	very low
Fischbach/electrical equipment	39½	1.83	2.10	4.86	–57	5	very low
Commodore Intl/computer equipment	12¾	4.66	2.64	5.85	–55	11	very low
Robinson Nugent/precision instruments	13½	0.90	0.60	1.29	–53	6	very low
Deere & Co/agricultural equipment	31½	1.43	1.42	3.02	–53	25	very low
Sparton/electrical equipment	15½	1.13	0.88	1.87	–53	3	very low
Intel/semiconductors	25½	1.70	1.25	2.59	–52	33	very low
GenRad/electronics	17⅛	0.68	1.30	2.59	–50	18	low
Zapata/oilfield services	14	1.28	1.01	1.99	–49	21	very low
Consumers Power/electric utility	6⅛	1.66	1.25	2.43	–49	14	very low
Commercial Metals/metal fabricating	17⅛	1.50	1.70	3.19	–46	4	low
Unifi/textiles	9⅞	1.05	0.64	1.19	–46	4	very low
Cordis/health care equipment	8	1.44	0.91	1.69	–46	7	low
Pioneer Electronics/consumer electronics	22⅜	0.51	0.57	1.05	–46	3	low
National Intergroup/steel	30½	1.47	3.52	6.47	–46	10	very low
Stone Container/paper packaging prods	27½	2.39	3.39	6.20	–45	12	low
Kollmorgen/electronics, elec equip	19⅞	1.08	1.28	2.34	–45	6	average
Optical Coating Lab/special optical coatings	17⅜	1.16	1.21	2.21	–45	6	low
Alcan Aluminium/aluminum	26⅜	2.21	3.19	5.79	–45	24	very low
Triad Sys/computer equipment	10⅝	0.66	0.68	1.23	–45	5	very low
Lone Star Inds/cement	23⅜	2.55	1.60	2.86	–44	7	very low
Shaklee/food processing	15½	1.00	1.32	2.35	–44	3	average
Burlington Inds/textiles	27	2.18	2.32	4.11	–44	11	low
Homestake Mining/gold, lead and zinc mining	22⅜	0.59	0.94	1.64	–43	14	very low
Siltec/electronics	7⅛	0.78	0.80	1.39	–42	3	average
Arrow Electronics/electronics	16⅛	2.00	2.09	3.59	–42	4	very low
Chicago & NW Transport/railroad	19⅞	1.29	2.28	3.83	–40	11	very low

Source: Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan.